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Winalta Shelters Inc.

18 - 19th Street Business Hotel
University of Alberta
1-28 Business Building
Edmonton, Alberta T6G 2N6



1997

ANNUAL REPORT

RIDGEMOOD

To provide quality, affordable housing to potential home buyers covering all spectrums of the marketplace both locally and globally. We will strive to continue to be a successful and profitable Company and focus on exceeding consumer service and expectations while bringing added value to our customers. We will invest in the training and development of our employees, recognizing that our people are our greatest asset. We will become the housing industry leader of choice.

Accomplishing Our Mission

We will accomplish our mission by providing our customers with uncompromising quality standards in a variety of product categories.

The Key To Our Success

Our success depends on our ability to attract the most promising talents into our Company. Then we must dare to set them free in a workplace that is stimulating, safe and secure. We must encourage original thinking and the teamwork that is necessary to bring individual acts of inspiration to full realization.

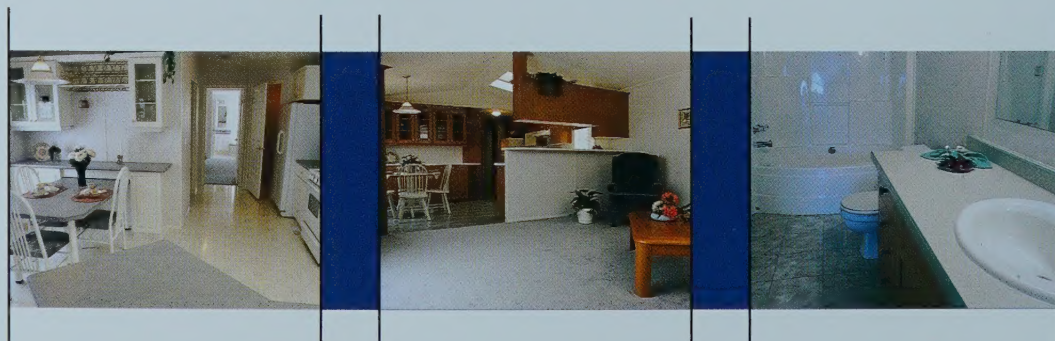
Our Style and Personality

True to our heritage, we strive to be the architects of meaningful change in our industry; to take the steps necessary to move forward into the future.

The consistent practice of these business principles will ensure we accomplish our mission: to become the housing industry leader of choice.

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AN INTRODUCTION TO WINALTA SHELTERS

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

*Winalta Shelters is a rapidly-
growing and profitable business
which provides homes that
people can afford. Its
comprehensive product line
includes quality manufactured
homes, modular homes,
prefabricated homes and
traditional site-built homes.*

The primary focus and the largest business unit of the Company is the production of manufactured homes which are targeted at low-to-middle-income earners and first-home buyers. All of our manufactured homes are CSA certified, qualify for CMHC mortgage insurance, and are backed by our seven-year structural warranty.

The Company's predominant marketplace is Western Canada which is served both by Company-owned and independent distributors. Currently, a total of 14 retail locations have been established in Alberta (10), British Columbia (2), Saskatchewan (1) and Manitoba (1). Manufactured homes are usually sold to retailers on a cash-on-delivery basis, although Winalta's newly enhanced credit facilities now make it possible to help the retail dealers expand their inventory.

Building a home in a factory reduces the possibility of damage on site by the elements and other hazards, results in a much quicker construction turnaround time and helps to achieve the high standards for productivity that help to make Winalta homes so affordable. Each Winalta home requires only four days for construction, yet offers the same features and amenities possible in traditional, site-built homes. Customers can choose from such features as jacuzzi tubs, skylights, fireplaces, central vacuum systems and air conditioning.

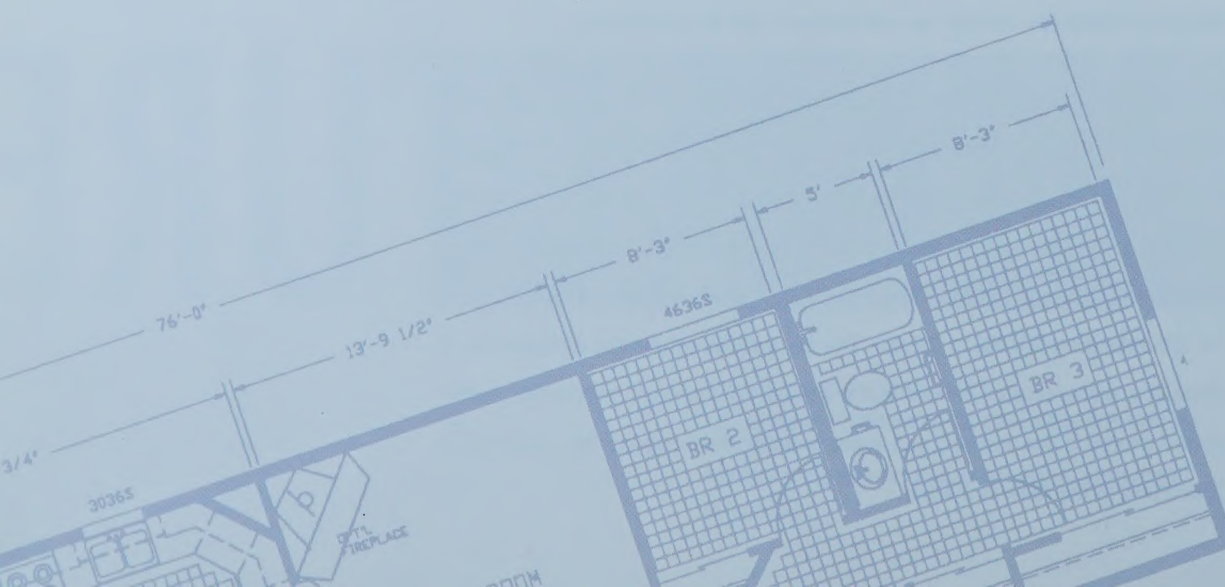
Winalta's homes range in size from 850 to 1800 square feet, and come in more than 20 floor plans. Homes are manufactured in either single-wide or double-wide section widths. Double-wide homes are built in two sections and are joined together via on-site construction when delivered. Single-wide homes currently range in price from \$39,000 to \$60,000, while double-wide homes retail for approximately \$60,000 to \$80,000. The competitive prices and high-quality of Winalta's manufactured homes have gained an excellent reputation in the manufactured home market, and consequently the Company has captured a 25% share of the Alberta market.

In addition to the manufactured home market, Winalta is now competing in the three other important areas of housing construction: modular homes (homes constructed in the plant, with the foundation constructed on-site); prefabricated housing (construction packages of housing components) and traditional site-built homes. Currently, the modular housing and prefabricated housing markets are enjoying increasingly strong demand, and Winalta is strategically positioned to achieve and maintain leadership in these markets.



Management Team

From left to right: Cindy Peterson, Bob Hunter, Lorne Pezderic, James A. Sapara, Joel Sapara, Frank Deys, Brian Sykes, John Bennett. Seated in front, from left to right: Alex Arrieta, Larry Chalmers.



MESSAGE TO THE SHAREHOLDERS



James A. (Jim) Sapara
President and Chief
Executive Officer

Fiscal 1997 was an exciting and exceptionally successful year for your Company. Winalta Shelters entered a new phase of its growth by listing the Company on the Alberta Stock Exchange in October 1997, by achieving record revenues and earnings and by putting into place the financial and people resources to accelerate growth in the years to come.

When Winalta Shelters was founded in 1976, there were more than 20 manufactured housing companies operating in Alberta. Today, there are only five major plants, and, of those five, Winalta has been around the longest. Over the past twenty-one years Winalta has established a reputation for quality construction. This reputation has been a key factor in the Company capturing more than 25% of the manufactured home market in Alberta.

As the year progressed, it became increasingly obvious that it would be highly desirable for Winalta to attract financial partners, in the form of shareholders, to permit continuing rapid growth. As a result, an Initial Public Offering closed on September 30, 1997, having raised maximum proceeds of \$5 million. Proceeds of the IPO were put to use immediately, funding a plant expansion of 15,000 square feet and the establishment of retail and wholesale credit facilities which will significantly enhance marketing opportunities.

Monies raised through the IPO were also earmarked for acquisitions, and in October 1997, Winalta closed the acquisition of Carlton Homes, a site-built housing construction company in Edmonton. Carlton is aggressively expanding in the Edmonton marketplace, producing sales of approximately \$3 million annually. A long-standing member of the New Home Warranty Program and Edmonton Home Builders Association, Carlton's strong management team was important to Winalta, and it is a pleasure to report that Larry Chalmers, former Carlton president, is now president of our Westalta Modular Homes Inc. subsidiary and is responsible for its modular and site-built home operations.

Management is continuing to look for additional opportunities, seeking an appropriate fit for both Winalta's vertical and horizontal growth strategies. Acquisition candidates include companies that could provide products or services to the Company, including component suppliers and service providers.



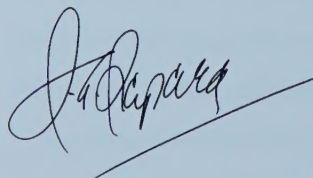
Among the most desired characteristics in a company being considered for acquisition would be the strength and experience of the management team, the extent of market penetration, financial performance, the length of time the company has been operating and the synergy brought to Winalta by such an acquisition.

Winalta continued its positive trend of growth during the fiscal year ending October 31, 1997. Sales for the past year increased 22%, directly attributed to expansion into the modular home market together with increased housing starts experienced in the province of Alberta. While the strong revenue growth from \$25.7 million to \$31.4 million was significant, what was particularly gratifying was the bottom-line income growth achieved totalling \$1,350,455 which was in-line with our projections.

Expectations are high for a greater increase in sales in the next fiscal year. Winalta should benefit from a strong increase in housing starts in Alberta, and Canada as a whole, estimated by the CMHC to be 15.3% and 9.3% respectively. With the expansion of Winalta's production facility in Enoch and anticipated late spring completion of our prefabricated home plant, sales should exceed \$35 million for fiscal 1998.

As an active western Canadian marketplace spurs on housing starts, Winalta is well-positioned in all areas of building construction to take advantage of all growth opportunities which may arise. Our small management team is able to move quickly, yet strategically, and has an intent focus on the bottom line in all operations and acquisitions. Expectations are strong for a substantial increase in revenues, with a commensurate increase in income.

On behalf of the Board of Directors,



James A. Sapara
President and Chief Executive Officer
February 27, 1998



REVIEW OF OPERATIONS

OUR CORE BUSINESS: QUALITY AFFORDABLE HOMES

In the 21 years that Winalta has been operating, we have streamlined our manufacturing process to be able to build a manufactured home from start to finish in just four days. The efficiency with which we construct our products allows us to maintain affordable prices, which attract our target market, consumers in the low-to-mid-income range. We have not, however, allowed speed to detract at all from the quality of our products. Quality control at each step of construction is integral to the building process, and is backed by our seven-year structural warranty. The following briefly reviews the Company's main product lines and business opportunities: manufactured homes, prefabricated housing, modular homes, site-built homes and the industrial market.

RIDGEWOOD HOMES MANUFACTURED BY WINALTA SHELTERS INC.

Winalta Shelters Inc. produces single-wide and double-wide manufactured homes under the trade name "Ridgewood Homes" which are distributed to western Canadians through strategically placed retail outlets. The consumer chooses from over twenty floor plans and personalizes the home with our selection of carpeting and linoleum, cabinets, countertops and exterior decors; additional optional features include jacuzzi tubs, fireplaces and central vacuum systems. The personalized customer home order is then forwarded to the Winalta plant for construction. Construction of the home is comprised of both online and offline processes. Cabinets, draperies and trusses are constructed offline and integrated into our main online process, which includes flooring, framing, roofing, electrical, plumbing, finishing, insulating, exterior siding application, window and door application, shingling and final cleaning. Through our finely-tuned construction method, the customer's personalized home is constructed in less than one week, ready for final inspection and delivery.

MODULAR HOMES

Modular homes are an expanding portion of the home construction market which Winalta began to aggressively pursue in March 1997 with the opening of a wholly-owned subsidiary, Westalta Modular Homes Inc. Westalta offers custom built floor plans to consumers, allowing them to participate in the design of the initial floor plan and specifications of the home. Modular homes are generally built in two to four sections, which are targeted to be delivered to the customer's site within 30 days of production. On-site constructed foundations



await the modular home, which is placed on the foundation and finished on-site for customer possession. All modular homes are constructed to meet or exceed the provincial building and national building codes in addition to the CSA A277 specifications.

The recent expansion of the Winalta plant will enable the Company to streamline modular home construction and improve labor efficiency within the plant. Westalta's acquisition of Carlton Homes in October 1997 provides the subsidiary with the subtrade resources necessary to sell full turnkey modular home packages in the Edmonton and surrounding area. The outlook for 1998 is increased demand for modular homes, particularly in Alberta where labor shortages are expected to create a need for less labor-intensive construction methods.

SITE-BUILT HOUSING

Acquisition of Carlton Homes by Westalta Modular Homes Inc. in October 1997 enabled the Winalta Group to offer all forms of single family residential housing. Carlton Homes currently builds custom homes which range in price from approximately \$175,000 to \$300,000. The financial resources available through the Winalta Group will enable this division to expand aggressively within the Edmonton marketplace. Carlton Homes has built a solid reputation in the Edmonton residential home marketplace during their 15 years of operation. The experienced management team acquired with the Carlton acquisition is expected to ensure future growth within the Edmonton vicinity.

PREFABRICATED HOUSING

The growing trend among homebuilders is the use of prefabricated housing packages. Prefabricated housing, which offers pre-assembled components and controlled material quantities, has earned a reputation for being an economical, high quality alternative to site-built construction. Demand has increased particularly in several offshore markets, which historically have faced a shortage of readily available housing materials.

The Company is currently laying the groundwork for a prefabricated housing plant and anticipates full operation by late spring. The prefabricated housing division is very synergistic with Winalta's core business of manufactured homes. The construction process is easily adapted to produce a prefabricated housing package since its components are similar to the components Winalta

already uses in constructing manufactured homes. Volume of material purchases will therefore increase and is expected to provide further savings to the Company.

Essential components such as wall sections and trusses will be constructed within Winalta's new prefabricated housing plant. These components will be packaged in containers, along with such building materials as doors, windows, cabinets and flooring and delivered to international and domestic markets. A variety of floor plans are available with specifications based on the domestic or international marketplace requirements.

INDUSTRIAL MARKET

Providing homes and workplaces for the industrial market is another lucrative opportunity being expanded by Winalta as a number of major industrial projects were announced in 1997 for Northern Alberta. In the past few years, Winalta has built portable classrooms, facilities for the Royal Canadian Mounted Police and healthcare units. Given Winalta's past expertise in the industrial market, management will develop this area further.

CREDIT FINANCING

One important element in Winalta's successful growth is an understanding of the needs of the customer to have access to financing. Whether that customer is an independent dealer or the ultimate owner/resident, Winalta is developing creative and effective financing programs.

Remembering that part of the Company's target market consists of relatively low-income buyers, one successful new program Winalta has introduced is a 0% Down Payment Program for manufactured homes. This program is a key component in Winalta's current advertising strategy. This strategy was made possible through the establishment of a retail credit facility, financed through proceeds raised by the IPO.

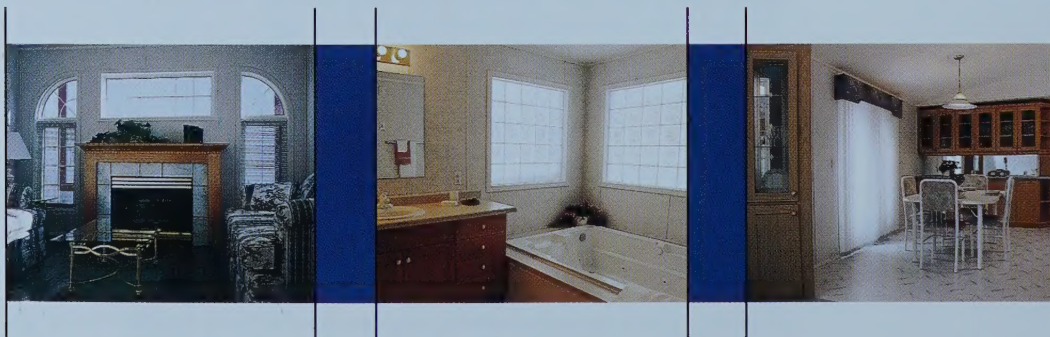
Credit financing programs for potential and existing dealers through a wholesale credit facility are also expected to have a positive impact on sales, providing the retail network with further stock support to their displayed inventory. Future corporate leasing programs are also being developed to target housing and relocation requirements of several industrial and oil field clients.

FUTURE MARKETS, NEW PRODUCTS

Winalta's growth strategy is based on the solid business practice of always reinforcing success. The Company has done this by analyzing the potential to penetrate new markets with new products, which are natural extensions of Winalta's existing strengths. Modular and prefabricated housing are excellent examples of these extensions. Winalta's production facility for its manufactured homes has been expanded to allow for the streamline processing of modular housing. The Company now has the production capacity to compete more vigorously in this growing modular market. The acquisition of Carlton Homes to compete in the Edmonton site-built housing market and the future construction of the prefabricated housing plant provides the Company with significant market presence in all areas of building construction: site-built, manufactured, modular and prefabricated.



A site-built Carlton Home



MANAGEMENT DISCUSSION & ANALYSIS



*Frank W. Deys, C.M.A.
Executive Vice President
and Chief Financial Officer*

Record consolidated gross revenues were posted for the year ended October 31, 1997 totaling \$31,388,858 a 22% increase over 1996 results. The strong Alberta economy contributed significantly to the growth in revenue. Start up of Winalta's modular home subsidiary, Westalta Modular Homes Inc. also contributed to the record revenues achieved for the 1997 fiscal year.

While the Company's gross profit in actual dollars increased by \$721,151 1997 gross profit decreased to 21.1% from the 22.9% recorded in fiscal 1996. This decreased percentage is primarily attributed to start up of the Westalta Modular division and lower retail margins generally recorded by Winalta subsidiaries during the 1997 fiscal year. Upward pressure on direct labor was also a factor in the reduced margin recorded as labor shortages are being incurred across Alberta.

General administrative expenses as a percentage of revenue decreased from 12.1% to 10.9% during fiscal 1997. A real dollar increase of \$309,607 is primarily a result of a) travel and promotional costs increasing as further emphasis on television advertising was undertaken along with increased travel incurred and b) legal and professional fees increased primarily as a result of amortized IPO costs incurred together with increased engineering costs expensed for the modular homes division.

Income from operations increased in dollars by \$386,026 although the impact of lower gross margins resulted in a 0.5% decrease year over year in the 1997 year. Interest expense increased by \$177,621 directly attributed to the conversion of parent Company debt to interest bearing notes in addition to increased lines of credit utilized to fund the growth achieved during the year ended October 31, 1997.

Net earnings of \$1,717,999 for October 31, 1997 reflects a substantial increase (467.4%) from the \$367,544 net earnings recorded in 1996. The impact of the writedown of investment in 1996 totaling \$928,775 is significant in comparing year over year net earnings growth.

LIQUIDITY

During 1997, the Company successfully completed an Initial Public Offering of shares, listed on the Alberta Stock Exchange, and raised \$5,062,530. Net proceeds from the Initial Public share offering received during the fiscal year improved liquidity of the Company significantly at the October 31, 1997 year end. Although funds remain earmarked for expansion of the Winalta plant (in

midstream at year end October 31, 1997), a new prefabricated homes plant and new financing programs, the initial impact on the liquidity is reflected in the positive working capital position of \$5,254,644 recorded at October 31, 1997. Revolving credit facilities totaling \$2,700,000 through our lending institution, the Hongkong Bank of Canada, were repaid in full through IPO proceeds and the Company records a strong cash position at year end of \$1,543,512.

The Company is in a strong financial position, operating well within the terms of credit facilities available and will continue with the expansion and growth plans in place for 1998.

ASSETS

The increase in capital assets of the Company primarily reflects the cost of plant, office and sales lot expansion recorded in leasehold improvements at year end. The Company was midway through a plant expansion, financed through IPO proceeds at year end. The 15,000 square foot plant expansion is expected to improve productivity and efficiency of the Company in the future.

Additionally, showhome assets totaling \$315,476 recorded at year end pertain to the Westalta Modular Homes Inc. retail lot set up during 1997. The retail lot displays 3 fully furnished modular homes for consumer viewing.

Deferred costs of \$705,427 include the financing costs incurred for the public issue totaling \$626,034 which are amortized over the next 10 years.

Land inventory holdings totaling \$1,390,440 at October 31, 1997 include commercial property in Red Deer leased to a retail dealer, an acreage subdivision located 10 minutes west of Edmonton containing 17 acreage lots for modular and site-built homes, commercial property occupied by our Ridgewood sales lot in Prince George, British Columbia and miscellaneous inventory of acreage and city lots ready for construction of modulares and site-built homes.

OUTLOOK

Management expects continued growth of the Company through the expansion into the modular, prefabricated and site-built housing markets. A full year cycle for the modular and site-built divisions together with start up of prefabricated housing division in late spring will have a positive impact on consolidated revenues generated during 1998. Projected profitability of Winalta subsidiaries will contribute to projected growth in net earnings of the Company.

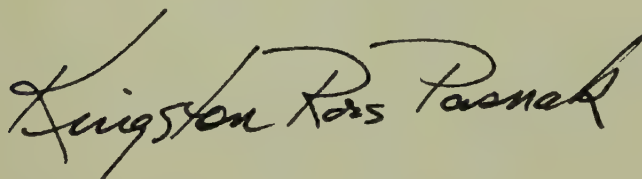
AUDITORS' REPORT

To the Shareholders of Winalta Shelters Inc.:

We have audited the consolidated balance sheet of Winalta Shelters Inc. as of October 31, 1997 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Kingston Ross Pasnak
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended October 31, 1997

	1997	1996
SALES	\$ 31,388,858	\$ 25,738,974
COST OF GOODS SOLD	24,766,897	19,838,164
GROSS PROFIT	6,621,961	5,900,810
EXPENSES		
General and administrative	3,414,884	3,105,277
Amortization	196,768	171,250
	3,611,652	3,276,527
INCOME FROM OPERATIONS	3,010,309	2,624,283
OTHER INCOME (EXPENSE)		
Gain on disposal of capital assets	13,332	-
Loss on investments and advances	(32,063)	(928,775)
Interest expense	(303,171)	(125,550)
Advisory fees	-	(408,000)
	(321,902)	(1,462,325)
INCOME BEFORE INCOME TAXES	2,688,407	1,161,958
INCOME TAXES	970,408	794,414
NET INCOME	1,717,999	367,544
RETAINED EARNINGS, BEGINNING OF YEAR	439,674	3,072,130
DIVIDENDS	-	(3,000,000)
RETAINED EARNINGS, END OF YEAR	\$ 2,157,673	\$ 439,674
EARNINGS PER SHARE (Note 13)		

CONSOLIDATED BALANCE SHEET

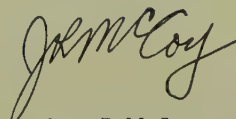
October 31, 1997

	1997	1996
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,543,512	\$ -
Marketable securities	56,928	175,267
Accounts receivable	4,235,369	3,048,573
Inventory (Note 2)	4,580,324	3,014,995
Prepaid expenses	96,323	30,008
Advances to parent company	109,795	-
	10,622,251	6,268,843
CAPITAL ASSETS (Note 3)	1,610,289	969,680
DEFERRED COSTS (Note 4)	705,427	3,416
INVESTMENTS AND ADVANCES (Note 5)	513,494	511,948
	\$ 13,451,461	\$ 7,753,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank indebtedness	\$ -	\$ 784,305
Accounts payable and accrued liabilities (Note 6)	4,005,582	3,190,491
Line of credit advance	329	98,004
Income taxes payable	494,787	145,175
Unearned revenue	277,914	164,229
Current portion of long-term debt	20,004	39,176
Advance from parent company	-	1,157,829
Current portion of promissory		
Notes to parent company	568,991	568,991
	5,367,607	6,148,200
LONG-TERM DEBT (Note 7)	266,660	-
ADVANCES FROM PARENT COMPANY (Note 8)	596,991	1,165,983
	6,231,258	7,314,183
CONTINGENCIES AND COMMITMENTS (Note 9)		
SHARE CAPITAL (Note 12)	5,062,530	30
RETAINED EARNINGS	2,157,673	439,674
	7,220,203	439,704
	\$ 13,451,461	\$ 7,753,887

APPROVED BY THE BOARD



Frans F. Slatter
Director



Jerry R. McCoy
Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended October 31, 1997

	1997	1996
OPERATING ACTIVITIES		
Net income	\$ 1,717,999	\$ 367,544
Items not affecting cash flow		
Amortization	196,768	171,250
Gain on disposal of capital assets	(13,332)	-
Loss on investments and advances	32,063	928,775
	1,933,498	1,467,569
Net change in non-cash working capital	(1,581,271)	(417,119)
	352,227	1,050,450
INVESTING ACTIVITIES		
Purchase of capital assets	(857,532)	(265,888)
Proceeds on disposal of capital assets	36,900	-
Sale of investments	-	4
Purchase of marketable securities	(221,006)	(365,746)
Proceeds on sale of marketable securities	348,503	79,711
Advances from (to) related companies	(1,546)	393,976
Expenditures on intangible assets	(705,427)	-
	(1,400,108)	(157,943)
FINANCING ACTIVITIES		
Acquisition of long-term debt	300,000	-
Repayment of long-term debt	(52,512)	(49,908)
Advance (to) from parent company	(1,836,615)	2,196,382
Dividends	-	(3,000,000)
Repayment of line of credit advance	(97,675)	6,735
Decrease in note receivable	-	827
Issuance of share capital	5,062,500	-
	3,375,698	(845,964)
CASH PROVIDED	2,327,817	46,543
BANK INDEBTEDNESS, BEGINNING OF YEAR	(784,305)	(830,848)
CASH (BANK INDEBTEDNESS), END OF YEAR	\$ 1,543,512	\$ (784,305)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Significant Accounting

POLICIES

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with generally accepted accounting principles.

GENERAL

The Company produces manufactured mobile homes, modular homes and custom built homes near Winterburn, Alberta. The Company was incorporated under the Alberta Business Corporations Act in 1986 and is listed for trading on The Alberta Stock Exchange.

CONSOLIDATION

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ridgewood Homes Inc., Westalta Modular Homes Inc., Winalta Holdings Inc. and Winalta Communities Inc.

INVENTORY

Inventories are valued at the lower of cost or net realizable value.

CAPITAL ASSETS

Capital assets are recorded at cost. The Company provides amortization on its capital assets using the following methods and rates:

	Method	Rate
Leasehold improvements	Straight-line	5 years
Automotive	Diminishing balance	30%
Machinery and equipment	Diminishing balance	20%
Showhomes	Diminishing balance	4%
Furniture and fixtures	Diminishing balance	20%
Buildings	Diminishing balance	10%
Lot development	Diminishing balance	8%

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, marketable securities, accounts receivable, accounts payable, unearned revenue, long-term debt and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

REVENUE RECOGNITION

When a customer pays a nominal deposit, the company does not recognize revenue unless the customer has secured adequate financing and the manufactured home has been shipped. In circumstances where a significant deposit is made and a clear intention exists to take delivery of the manufactured home, revenue is recognized at the later of conclusion of manufacture and the time of receipt of the deposit.

Revenue on sales of manufactured homes on a contract basis is recognized upon completion of construction as delivery and payment are assured by the contract.

Note 2 Inventory

	1997	1996
Inventory consists of the following:		
Raw materials	\$ 949,791	\$ 832,669
Land inventory	1,390,440	230,701
Finished units	2,119,741	1,865,414
Work in progress	120,352	86,211
	<u>\$ 4,580,324</u>	<u>\$ 3,014,995</u>

Note 3 Capital Assets

	1997		1996
	Cost	Accumulated Amortization	Net Book Value
Leasehold improvements	\$ 838,468	\$ 439,152	\$ 399,316
Automotive	450,500	317,448	133,052
Machinery and equipment	446,905	201,193	245,712
Showhomes	319,219	3,743	315,476
Land improvements	275,868	-	275,868
Furniture and fixtures	275,022	147,901	127,121
Buildings	103,058	10,306	92,752
Lot development	21,497	505	20,992
	<u>\$ 2,730,537</u>	<u>\$ 1,120,248</u>	<u>\$ 1,610,289</u>

Amortization in the current period totalled \$193,352; (1996 - \$168,971).

Note 4 Deferred Costs

The deferred costs relate to expenditures with an intangible benefit extending beyond the current period. Management expects the benefit of these expenditures to extend over the number of years shown below. The costs, net of the expensed portions, are comprised of the following:

	1997	1996
Deferred financing costs - 10 years	\$ 626,034	\$ -
Promotional contract - 4 years	44,333	-
Start-up costs for new operations - 5 years	35,060	-
Incorporation costs	-	3,416
	<u>\$ 705,427</u>	<u>\$ 3,416</u>

Note 5 Investments and Advances

	1997	1996
a) Investment, using equity method		
Lakeland Village II Ltd.		
Percentage of ownership	50%	50%
Cost of investment	\$ 5	\$ 5
Share of income since acquisition	1,948	1,948
Advances	499,041	499,995
	<u>500,994</u>	<u>501,948</u>
b) Miscellaneous Advances and Investments		
Club Membership	12,500	10,000
	<u>\$ 513,494</u>	<u>\$ 511,948</u>

Lakeland Village II Ltd. owns and operates a manufactured housing community. Advances to equity investments are unsecured, non-interest bearing and have no fixed terms of repayment.

Note 6 Accounts Payable and Accrued Liabilities

	1997	1996
Trade	\$ 2,845,344	\$ 2,199,381
Compensation	363,770	430,447
Other	796,468	560,663
	<u>\$ 4,005,582</u>	<u>\$ 3,190,491</u>

Note 7 Long-Term Debt

	1997	1996
The loan is payable over fifteen years with monthly payments of \$1,667. The note bears interest at prime plus 3/4% and is secured by the underlying property.	\$ 286,664	\$ -
The note is payable over two years with monthly blended payments of \$354 and the balance repayable at December 31, 1996. The note bears interest at 8.5% and is secured by the underlying property.	-	39,176
	286,664	39,176
Principal amounts included in current liabilities	20,004	39,176
	\$ 266,660	\$ -

Principal amounts due in future years are as follows:

1998	\$ 20,004
1999	20,004
2000	20,004
2001	20,004
2002	20,004
2003 and thereafter	186,644
	\$ 286,664

Note 8 Advances from Parent Company

	1997	1996
A note payable with monthly principal payments of \$19,416 maturing on March 1, 2000. The note bears interest at prime plus 1/2 % and is secured by the issuance of a general security agreement in favour of the parent company.	\$ 465,982	\$ 698,974
A note payable with monthly principal payments of \$28,000 maturing on November 19, 1999. The note bears interest at the Roynat base rate plus 3% and is secured by the issuance of a general security agreement in favour of the parent company.	700,000	1,036,000
Unsecured shareholder loan with no fixed terms of repayment	(109,795)	1,157,829
	1,056,187	2,892,803
Unsecured portion classified as a current (asset) liability	(109,795)	1,157,829
Principal repayments of promissory notes due in current year	568,991	568,991
	\$ 596,991	\$ 1,165,883

Principal amounts due in future years are as follows:

1998	\$ 568,991
1999	568,992
2000	28,000
	<hr/>
	\$ 1,165,983

Note 9 Contingencies and Commitment

The company is contingently liable to the County of Parkland and the city of Edmonton for letters of credit totalling \$41,700.

Subsequent to year end, income tax authorities commenced a review of the company's 1995 and 1996 income tax returns. At the date of the audit report, this review was ongoing and accordingly, no reassessments have been received by the Company. The potential liabilities resulting from this review cannot reasonably be estimated.

Note 10 Related Party Transactions

The Company is controlled by Winmor 7 Inc. During the year, the company paid interest to Winmor 7 Inc. of \$93,753 and administration fees of \$57,120.

Note 11 Tax Losses Carried Forward

The Company has accumulated net capital losses for income tax purposes of \$721,894. These losses do not expire and can only be claimed against taxable capital gains realized in future years.

Note 12 Share Capital

	1997	1996
Authorized:		
Unlimited number of Class A voting shares		
Issued:		
13,375,000 Class A shares;		
(1996 - 3,600 shares)	<hr/>	<hr/>
	\$ 5,062,530	\$ 30

On April 25, 1997, the Company amended its share capital structure by eliminating the authorized but unissued Class B, C and D voting shares.

On May 6, 1997, the Company split 3,600 Class A common voting shares 2,777.78 for 1, resulting in 10,000,000 issued Class A shares.

The Company issued an additional 3,375,000 Class A common shares on the Alberta Stock Exchange for \$1.50 per share. Included in this issuance, 41,667 shares were issued to the Agent as part of the commission.

The Company has issued 1,666,667 Warrants that will permit the holder to purchase one Class A common share for each Warrant held at \$1.50. At October 31, 1997, none of the Warrants have been exercised.

Pursuant to an escrow agreement entered into on August 27, 1997 amongst the corporation, Montreal Trust Company of Canada as Trustee, and Winmor 7 Inc., an aggregate of 7,321,334 common shares owned by Winmor 7 Inc. are held in escrow.

On November 7, 1997, the Company has provided for the distribution of 1,044,000 common shares to be issued to the directors, officers and employees issuable under a stock option agreement. The option price will be \$1.50 per share. The options cannot be exercised until October 1, 1998 and will expire on October 1, 2002.

The Agent is entitled pursuant to a Share Option Agreement between the Company and the Agent to purchase an additional 333,333 common shares at \$1.50 per share. Under this same agreement, the Agent may receive 166,667 warrants as part of his remuneration. The Agent's Option is non-transferable and shall expire on August 27, 1999.

Note 13 Earnings Per Share

	1997	1996
Basic earnings per share	\$ 0.162	\$ 0.037
Fully diluted earnings per share	\$ 0.158	\$ 0.037

Fully diluted earnings per share shows the effect on earnings per share which would result if the 1,666,667 warrants outstanding at the date of the balance sheet were converted to common shares at \$1.50 per share and the funds derived there from had been invested to produce an annual return of 6.25%, before applicable income taxes. The amount of income imputed, after tax was \$10,027.

DIRECTORS

James A. (Jim) Sapara

Frank W. Deys, C.M.A.

JR Shaw*

Jerry R. McCoy*+

Douglas H. Mitchell+

Robert J. Dawson*+

Frans F. Slatter

*Members of Audit Committee

+Members of Remuneration Committee

MANAGEMENT

James A. (Jim) Sapara

President and Chief Executive Officer

Frank W. Deys, C.M.A.

Executive Vice President and Chief Financial Officer

Brian J. Sykes

General Manager

Joel A. Sapara

General Sales Manager

Lorne J. Pezderic

Purchasing Manager

Alexander L. (Alex) Arrieta

Engineering Manager

Cindy G. Peterson

Controller

Larry Chalmers

President, Westalta Modular Homes Inc.

W.R. (Bob) Hunter

Vice President, Prefabricated Housing Division

John O. Bennett

Manager, Ridgewood Homes Inc.

BANKERS

Hongkong Bank of Canada

Edmonton, Canada

LEGAL COUNSEL

McCuaig Desrochers

Edmonton, Canada



Board of Directors

From left to right: Frank W. Deys, Douglas H. Mitchell, Frans F. Slatter, James A. Sapara, Jerry R. McCoy

Seated in front, from left to right: JR Shaw, Robert J. Dawson

AUDITORS

Kingston Ross Pasnak Chartered Accountants

Edmonton, Canada

INVESTOR RELATIONS

Cathy Hume of Hume, Kieran Inc.

224 Parliament Street

Toronto, ON M5A 3A4

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SHARE INFORMATION (as of February 27, 1998)

Listing: Alberta Stock Exchange

Symbol: WTA.A

Capitalisation: 13.4 million basic;

16.6 million fully diluted

ANNUAL MEETING

The Annual Meeting of Winalta Shelters Inc.

will be held in the King Edward Room on the

Third Floor of Manulife Place Conference Centre,

10180 101 Street, Edmonton, Alberta on Thursday,

May 14, 1998 at 11:00 a.m.



Corporate Office

Winalta Shelters Inc.

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